

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03 H-01

CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 ABF-01 FS-01 AGRE-00 /095 W

-----072902 111204Z /53

R 100604Z JUL 78

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8023

LIMITED OFFICIAL USE ISLAMABAD 6604

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: INTEREST ON USG RUPEE DEPOSITS WITH AMERICAN BANKS IN  
PAKISTAN

REFS: ISLAMABAD 5555, ISLAMABAD 6212, AND TREASURY'S MEMO OF JUNE  
2ND ENCLOSED WITH LUCIUS TO KENNON LETTER OF JUNE 8TH.

1. THE REFERENCED TREASURY MEMORANDUM TO THE FILES (DCM/FCS)  
STATES "THE DESIRE OF THE DEPARTMENT OF THE TREASURY TO MAXIMIZE  
OR AT LEAST INCREASE THE INTEREST YIELD ON OUR DEPOSITS IN  
PAKISTAN." WE ARE SYMPATHETIC WITH THE PRINCIPLE OF TREATING  
EXCESS CURRENCY HOLDINGS CONSISTENTLY AROUND THE WORLD AND  
GETTING A MARKET RATE OF INTEREST ON THEM. WE, HOWEVER, ARE  
SYMPATHETIC TO THE PROPOSITION THAT CIRCUMSTANCES ALTER CASES AND  
THAT THE CASE-BY-CASE APPROACH HAS MERIT WHEN APPLIED TO GENERAL  
PRINCIPLES. WE THINK THERE ARE COMPELLING REASONS IN THIS COUNTRY  
AT THIS TIME FOR LEAVING THINGS AS THEY ARE. FOR ONE THING, THE  
EFFECT OF THE MONETARY EXPANSION LIMITATIONS IMPOSED ON PAKISTAN  
BY THE IMF HAS BEEN TO SEVERELY CONSTRICT THE EARNING  
POSSIBILITIES OF AMERICAN BANKS. THEY ARE SEVERELY SQUEEZED  
BETWEEN THE INTEREST RATES AND VARIOUS CHARGES THEY MUST PAY AND  
THE INTEREST THEY CAN CHARGE ON THEIR LOANS AND ADVANCES. THIS

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WOULD BE AN ESPECIALLY BAD TIME TO MAKE A CHANGE FURTHER CUTTING  
INTO THE PROFIT POSSIBILITIES OF THE AMERICAN BANKS SINCE THEY  
ARE STILL REELING FROM THE RECENT DISCRIMINATORY INCREASE IN  
REQUIRED RESERVES WITH ITS ADVERSE CONSEQUENCES ON THEIR CASH  
FLOW AND COMPETITIVE POSITION.

2. WE ASSUME THAT THE MONEY ON DEPOSIT WITH AMERICAN BANKS WOULD

BE THE LAST OF OUR RUPEE HOLDINGS TO BE SPENT (A LA INDIA). WITH RUPEES ON HAND EXCEEDING RS. 1.8 BILLION AND WITH SUBSTANTIAL INFLOWS OVER THE NEXT SEVERAL YEARS, IT APPEARS TO US THAT ANY WITHDRAWALS FROM THE ACCOUNTS WITH THE AMERICAN BANKS WOULD BE MANY YEARS DOWN THE ROAD. IN OTHER WORDS, THE DISCOUNTED PRESENT VALUE OF ANY INCREASE IN THE INTEREST EARNINGS ON THESE ACCOUNTS WOULD BE VERY SMALL. SUCH BEING THE CASE, THE COSTS OF COMPLICATING THE POSITION OF AMERICAN BANKS IN PAKISTAN (INCLUDING THEIR PROFIT REMITTANCES WHICH ARE IN DOLLARS) WOULD FAR OUTWEIGH THE BENEFIT OF BRINGING PAKISTAN INTO LINE WITH OUR PRACTICE ELSEWHERE AND MAXIMIZING RUPEE EARNINGS FROM THE AMERICAN BANKS.  
HUMMEL

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NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** RUPEE, BANKS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Film Number:** D780283-0376  
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**Office:** ACTION NEA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
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**Reference:** 78 ISLAMABAD 5555, 78 ISLAMABAD 6212  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
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**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2072301  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INTEREST ON USG RUPEE DEPOSITS WITH AMERICAN BANKS IN PAKISTAN  
**TAGS:** EFIN, PK  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/e887e378-c288-dd11-92da-001cc4696bcc  
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